

Message Text

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ACTION EB-06

INFO OCT-01 ARA-06 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-05

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OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01 PRS-01

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R 211749Z OCT 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8382

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

SAN SALVADOR 2308

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SAN JOSE 4019

E.O. 11652: GDS

TAGS: ENRG, CS

SUBJECT: POOR RESULTS FROM THE RECOPE REFINERY

REF: SAN JOSE 3992

1. SUMMARY. ANALYSIS OF INFORMATION FROM A RECENT OFFICIAL REPORT ON THE COST STRUCTURE OF THE RECOPE REFINERY, TOGETHER WITH INFORMATION FROM OTHER SOURCES PERTAINING TO INTERNATIONAL PRICE AND COST LEVELS, SHOWS THAT THE STATE-OWNED ENTERPRISE IS PAYING AT LEAST \$2 DOLLARS PER BARREL MORE THAN IT SHOULD FOR ITS RECONSTITUTED CRUDE OIL, THAT IT IS PAYING EXCESSIVE TRANSPORTATION COSTS TO GET THE OIL FROM VENEZUELA TO COSTA RICA, AND THAT ITS
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COSTS ARE SO HIGH THAT THE PETROLEUM PRODUCTS IT

PRODUCES ARE MORE COSTLY THAN THOSE IT MUST IMPORT AS PRODUCTS (GASOLINE AND DIESEL OIL) TO SUPPLEMENT ITS OWN PRODUCTION. NEVERTHELESS, RECOPE MAKES A SUBSTANTIAL PROFIT ON BOTH THE PRODUCTS THAT IT PRODUCES AND THOSE IT IMPORTS, BECAUSE OF THE VERY HIGH PRICES THE COSTA RICAN GOVERNMENT PERMITS IT TO CHARGE. BECAUSE OF THE CONNECTION OF BOTH THE RECOPE MANAGER AND THE SHIPPING COMPANY THAT TRANSPORTS OIL FOR RECOPE WITH THE SAOPIM SCANDAL, THERE IS A LIKELIHOOD THAT OVERPAYMENTS FOR CRUDE OIL AND OIL TRANSPORT MAY REPRESENT NOT MERELY MISTAKES IN JUDGMENT BUT ALSO ILL-CONCEALED PROVISION FOR KICKBACKS. END SUMMARY.

2. THE EMBASSY HAS SECURED, THROUGH AN OIL COMPANY SOURCE, A COPY OF A REPORT, PREPARED BY THE CONTROLLER GENERAL OF COSTA RICA, ON THE OPERATION OF THE RECOPE PETROLEUM REFINERY, WHICH HAS BEEN OPERATED BY THE STATE SINCE IT WAS ACQUIRED FROM THE ALLIED CHEMICAL COMPANY IN NOVEMBER OF LAST YEAR. THE REPORT, WHICH THE EMBASSY IS POUCHING TO THE DEPARTMENT, FOCUSES ON RECOPE'S FIRST SIX MONTHS OF OPERATION UNDER STATE CONTROL THROUGH APRIL 1, 1974 AND CONTAINS PROJECTIONS FOR THE SUBSEQUENT 12 MONTHS.

3. THE FOLLOWING ARE THE MAIN FACTS AND CONSLUSIONS THAT EMERGE FROM AN ANALYSIS OF THE CONTROLLER GENERAL'S REPORT USING ALSO INFORMATION AVAILABLE FROM OTHER SOURCES FOR COMPARATIVE PURPOSES:

(1) RECOPE WAS PAYING (AS OF APRIL 30, 1974) \$12.06 PER BARREL F.O.B. FOR THE RECONSTITUTED CRUDE OIL THAT IT BUYS FROM THE SHELL OIL COMPANY OF VENEZUELA. (ALTHOUGH THE REPORT DOES NOT MAKE ANY COMPARISON TO PRICES PAID BY OTHER COUNTRIES FOR VENEZUELAN OIL, THIS PRICE WOULD REPRESENT AN OVERPAYMENT OF MORE THAN \$2 PER BARREL BASED ON THE AVERAGE TAX PAID COST OF VENEZUELAN PETROLEUM AND PRODUCTS.)
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(2) RECOPE PAYS FREIGHT CHARGES OF \$3.60 PER TON, EQUIVALENT TO 51 CENTS PER BARREL, ON THE BASIS OF WORLD SCAEL 300, TO HAVE ITS OIL TRANSPORTED HERE FROM VENEZUELA. RECOPE IS LOCKED INTO THIS RATE BY A 30-MONTH CONTRACT, WHICH BEGAN NOVEMBER 9, 1973. (ALTHOUGH FREIGHT RATES ARE CON-

STANTLY CHANGING, A MORE NORMAL FREIGHT RATE WOULD BE ABOUT 30 CENTS PER BARREL. GIVEN THE INVOLVEMENT IN THE SAOPIM SCANDAL OF RECOPE MANAGER GASTON KOGAN AND OF THE SHIPPING COMPANY WITH WHICH RECOPE SIGNED THIS CONTRACT (BUQUES CENTROAMERICANOS, S.A.), THE EXCESSIVE FREIGHT PAYMENT COULD INDICATE THE LIKELIHOOD OF A KICKBACK TO THE RECOPE MANAGER, OR TO BOTH.

(3) RECOPE'S REFINING COSTS WERE SO HIGH DURING THE FIRST SIX MONTHS OF OPERATION BY THE GOVERNMENT THAT IT COULD HAVE MADE MORE MONEY, OR SOLD PRODUCTS FOR LSS, BY SHUTTING DOWN ITS OPERATIONS COMPLETELY AND IMPORTING ALL OF COSTA RICA REQUIREMENTS IN THE FORM OF ALREADY REFINED PRODUCTS. FOR EXAMPLE, IT COSTS RECOPE 4.97 COLONES PER GALLON TO PRODUCE GASOLINE IN ITS REFINERY WHEREAS IT PAID ONLY 3.35 COLONES PER GALLON (APRIL 4, 1974) TO IMPORT GASOLINE NEEDED TO SUPPLEMENT THE REFINERY'S OUTPUT.

(4) DESPITE THE HIGH PRICE IT PAID FOR CRUDE OIL, RECOPE IS EXPECTED TO MAKE A PROFIT OF 120 MILLION COLONES DURING THE YEAR BEGINNING APRIL 1, 1974 (ASSUMING NO CHANGE IN COSTS). SUC IS THE CASE BECAUSE OF THE VERY HIGH RETAIL PRICES MAINTAINED FOR PETROLEUM PRODUCTS IN COSTA RICA (GASOLINE IS 98 CENTS PER GALLON).

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(5) THE TOTAL FOREIGN EXCHANGE COST OR COSTA RICA'S OIL IMPORTS WILL AMOUNT TO ABOUT \$51 MILLION THIS YEAR, PLUS ANY INCREASE IN OIL COSTS THAT MIGHT BE PASSED ON TO COSTA RICA AS A RESULT OF VENEZUELA'S LATEST INCREASE IN OIL TAXES.

4. THE MINISTER OF ECONOMY, INDUSTRY, AND COMMERCE HAS TOLD THE EMBASSY I CONFIDENCE THAT RECOPE WILL BE REORGANIZED. PRESUMABLY THE REORGANIZATION PROCESS WILL INVOLVE REMOVAL OF GASTON KOGAN AS HEAD OF RECOPE, IF HE IS NOT REMOVED SOONER AS A DIRECT PART OF THE PROCESS OF CLEANING UP THE SAOPIM SCANDAL.
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